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C O N F I D E N T I A L ANKARA 000218

SIPDIS

STATE FOR E, P, EB/IFD, AND EUR/SE
TREASURY FOR OASIA -- LOEVINGER, MILLS AND LEICHTER
NSC FOR BRYZA AND MCKIBBEN

E.O. 12958: DECL: 01/13/2014

TAGS: [EFIN](#) [PREL](#) [TU](#) [IZ](#)

SUBJECT: UPDATE ON FINANCIAL AGREEMENT

REF: 03 ANKARA 7096

(U) Classified by Ambassador Eric S. Edelman. Reason: 1.5
(b,d)

11. (C) In Ambassador's January 12 conversation with MFA U/S Ziyal, as well as in his recent discussions with the Prime Minister, Finance Minister Unakitan, and State Minister Babacan, the Turks have acknowledged that the complications surrounding the conditionality in the Financial Agreement are purely a domestic political issue, and one that they created themselves. They have expressed concern that the opposition -- which has been irresponsible on everything Iraq-related -- will use the political conditionality language in the agreement in a distorted way to suggest the GOT has entered into a binding legal agreement that limits its foreign policy options. While the leaders stress that they have no interest in "intervening" in Northern Iraq, they also say they do not want to be accused of "selling out" Turkey's interests, especially with local elections looming on March 28.

12. (C) In that context, U/S Ziyal told Ambassador January 13 that, while he appreciated the USG's continuing efforts to make this work, the latest language from Washington -- "this clause is required by United States domestic legal requirements" -- would not solve the GOT's political problem. He asked if the U.S. could accept two wording changes in the two sentences in sub-paragraph (2) of the proposed amendment (Ziyal did not explain why these editorial changes might help):

-- In the first sentence, replace "found in" with "of." The sentence would then read: "Turkey is satisfying all relevant conditions of Public Law 108-11, 117 Stat. 559, 575 (2003)."

-- In the second sentence, add the word "binding" after United States. The sentence would then read: "This clause is required by United States binding domestic legal requirements."

13. (C) Without appearing to push the GOT to take the money, Embassy believes it is still in the U.S. interest to keep it on the table. Therefore, we favor continuing to work, to the extent possible, to find a satisfactory solution. We also note that the Turkish domestic political problem might become less of a factor after the March 28 elections. In terms of next steps, we see three (not necessarily mutually exclusive) possible paths forward:

-- Washington reviews the latest Turkish language (above) and determines if it is acceptable (although it is not clear that even these changes would pass muster with the Prime Minister);

-- Washington ask Embassy to propose to the GOT the alternative formulation we understand was developed in late December: "This clause concerns United States legal requirements that merely limit the eligibility of the Government of Turkey to access the funds authorized by Public Law 108-11, 117 Stat 559, 575 (2003), and that do not bind the parties to undertake or refrain from certain policies."

-- Based on our discussions (including with Treasury U/S Canakci on January 9), it seems the GOT might be contemplating asking to take the money in the form of a grant, rather than loan. While this would not eliminate their political problem, it might make it more manageable. We do not need to take any action on this for the moment, but should keep in mind that it is a possibility.

14. (C) Although we have not heard this from any GOT sources, Embassy believes that the Prime Minister might raise the Financial Agreement -- specifically his desire to soften the political conditionality -- in his meeting with the President later this month.
EDELMAN